



BUILDING LONG TERM SUSTAINABILITY FOR CANADIAN BIOTECH: FLOW-THROUGH SHARES

THE ISSUE

Building the bio-economy of the future in Canada requires a strong capital environment that supports and enables Canadian SMEs engaged in research and development to fund, and grow, their businesses here.

Canada's flow-through shares program was enacted by the federal government in 1954 as a means of encouraging private sector investment for natural resource exploration. Today, flow-through shares issued by oil & gas, mining, and renewable energy companies are one of the tax-assisted investments available to Canadian resident investors that represent an attractive investment opportunity.

Similar to junior mining companies, Canada's junior biotechnology companies require a tremendous amount of time and capital to reach profitability. Permitting junior biotechnology firms to issue flow-through shares is estimated to stimulate more research investment and jobs in Canada.

RECOMMENDATION

Financial experts estimate the overall industry requires \$ 1-1.5 billion, per year, in private investment in order to sustain the biotech sector in the long-run. To achieve this goal, the industry recommends the government:

Expand the applicability of the federal government's flow-through shares program to Canada's biotechnology sector to stimulate new private investment.

BACKGROUND

- **Business reality:** Flow-through shares were introduced in the fifties for mature industries. The program does not fully reflect today's competitive business environment and the need to support emerging 21st century sectors.
- **Return-on-investment:** It is estimated expanding the flow-through shares program to Canada's biotechnology sector would generate nearly \$1 billion in new wealth and economic gains.*
- **Equity:** Flow-through shares are already available to some parts of the bio-based clean technology sector. We need to make it more equitable and extend this benefit to all biotechnology and/or life sciences firms.
- **Self-sustaining:** R&D intensive companies, such as biotech companies, can utilise their significant expenses – accumulated throughout the long development cycle - in a much more efficient manner by passing them onto investors and raising capital to continue R&D. This has the potential to create a self-sustaining financing ecosystem.
- **Revenue generation:** By reducing the investor's adjusted-cost base to zero, the federal government is effectively taxing all the proceeds from the investor's share sales. This represents a tremendous revenue generator for the federal government.
- **Forgoing future liability:** The government's future liability accounting for accumulated tax losses is significantly reduced by passing company expenses to the investor.
- **Global competitiveness:** Companies are required to spend the proceeds from the issuance of flow-through shares in Canada, effectively ensuring that high-paying research jobs are kept within Canada's innovation economy.
- **Risk:** The risk nature of research and development implies the usual negative return from investment must be offset by significant tax incentives not only to the company, but to the investor. The federal government has not created the business conditions to encourage private sector investment. The historical track-record of the flow-through shares program illustrates it is a vehicle to attract private sector risk capital.
- Today, Canada's bio-economy is worth \$ 84.7 billion - a full 6.9 percent of our GDP. Its future growth potential is even greater. Read more about our bio-economy and the Canadian industry's plan of action to capture our innovation potential at www.beyondmooseandmountains.ca.

*Source: PricewaterhouseCoopers LLP. Economic Impact of Flow-Through Shares in Biotechnology Industry. September 14, 2010.